



Michigan's agriculture and food industry implores you to reconsider the impact of the use tax on services enacted through PA 93 of 2007. This "pick and choose" tax on services is bad policy, creates winners and losers, raises many unanswered questions for all impacted businesses and will lead to a loss of development of the state's 2nd largest and most vibrant industry sector. We do not believe that was the intent of the legislation; therefore, we strongly urge your reconsideration of its negative impact, and instead encourage a broad-based solution that more fairly contributes to solving the state's fiscal crisis.

The agriculture and food industry is the state's 2nd largest industry, and continues to provide economic growth for our state. According to a 2006 study conducted by the MSU Product Center for Agriculture and Natural Resources, Michigan agriculture accounts for \$60.1 billion in state economic activity, 1.05 million Michigan jobs (1 in 4 workers), and over \$8.6 billion in state investment over the last five years. We are a growing industry that the state should continue to invest in, rather than adopting policies that will drive segments of the business out of state.

This new tax puts Michigan agriculture at a competitive disadvantage as the additional tax must be completely absorbed by producers who are unable to pass on the costs. This tax is also being implemented at a time when the State of Michigan can ill afford to disadvantage any business.

Here are a few examples of how the new use tax may directly impact agriculture:

- Due to their perishability and unique storage requirements, many agricultural commodities must be stored at some point following harvest before they are consumed. The new 6% tax on storage will be added to these Michigan agriculture products putting Michigan producers and handlers at a competitive disadvantage in today's global marketplace.
- Many contracts have already been negotiated detailing price and terms for this year's production. However, under the new tax on storage, a shipment of commodities as diverse as apples to onions will now be faced with an extra 6% tax on storage fees that was not included in the original negotiation. Consequently the cost for paying the tax will be extracted right out of the farmer's bottom line as commodities produced and stored in other states are not subject to the tax.
- Michigan has the second most diverse agriculture in the country. A key ingredient to this vibrant industry is the storage, handling and processing sector which has been developed to convert these bountiful, yet very perishable harvests into value-added products that can be stored and consumed year round. The storage tax impact on one fruit processor/handler is estimated at over \$250,000 and many of these products will be taxed multiple times as raw product; partially processed and finished product. This tax will lead these businesses to leave the state in order to stay competitive, taking the associated jobs

and economic activity with them, leaving Michigan farmers without the marketing support they depend on.

- Michigan produces 75 - 80 % of the US supply of cherries and virtually 100% of the tart cherries grown in the state are processed and stored before they are shipped. The added cost of the 6% tax on storage will come right out of the Michigan farmers' pay checks.
- This tax is potentially far reaching including tax on storage of corn or wheat by an elevator or warehouse for later use by an ethanol plant or wheat milling company. Again, this additional tax works against Michigan's competitiveness in a global arena and is a disincentive to doing business in Michigan.
- The tax on consulting services will impact farmers who utilize a comprehensive nutrient management plan (CNMP) as they typically use a consultant to assist in the process to ensure that all calculations are correct and environmental laws and regulations are followed. These plans often include site specific soil sampling and fertilizer application services also subject to the new tax on services. Similarly, farmers who follow integrated pest management (IPM) practices on their farms to reduce pesticide applications often rely on crop scouting and consulting services. Farmers have been strongly encouraged by public policy to adopt these and other environmentally friendly management practices. However, as of December 1, 2007 the new 6% service tax will be added to the price tag of all CNMPs and IPM programs, creating a disincentive to the continued use and expansion of these very successful, environmentally friendly programs.
- The complexity and confusion created by this tax is also underestimated and will require countless hours of time on the part of agriculture for compliance taking time away from productive activities as well as burden the state for implementation and audit functions, creating additional slippage in expected net tax revenues. There will also be significant effort expended to restructure business activities in an attempt to no longer be covered by the tax.

The Michigan agriculture community believes in the importance of public input for all legislation so that unintended consequences can be minimized. While it was important a shutdown of state government be avoided, it was unfortunate this new tax was not afforded an opportunity for public input and transparency so legislators could fully understand the impact their actions would have on Michigan agriculture.

Throughout this budget process, agriculture organizations and businesses recognized the reality of the State Budget and advocated for a broad-based tax rather than cuts to the Department of Agriculture. The current sales tax on services will unfairly target segments of the industry, while at the same time providing an economic boost to other states competing with Michigan for export opportunities, market development and business expansions.

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